

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL NOTE**

**SB 1045 - HB 1410**

March 4, 2017

**SUMMARY OF BILL:** Authorizes municipal electric plants to provide broadband service outside of their service area. Authorizes electric cooperatives to provide broadband service.

**ESTIMATED FISCAL IMPACT:**

**Increase Local Revenue – Exceeds \$400,000/Permissive**

**Increase Local Expenditures – Exceeds \$400,000/Permissive**

**Other Fiscal Impact – Due to multiple unknown factors, a precise increase in state revenue and permissive increase in local government expenditures from payment of F&E taxes by electric cooperatives providing broadband service cannot be reasonably determined.**

**Assumptions:**

- Municipal electric plants are currently authorized, pursuant to Tenn. Code Ann. § 7-52-601(a), to provide internet services within their service area. The proposed language would authorize municipal electric plants to provide broadband service outside of the service area.
- Pursuant to Tenn. Code Ann. § 7-52-603, a municipal electric system is required to maintain its broadband service through revenues collected from providing such service.
- Pursuant to Tenn. Code Ann. § 65-25-103, electric cooperatives are nonprofit entities who, pursuant to Tenn. Code Ann. § 65-25-112, distribute revenues for any fiscal year, in excess of the amount necessary to defray the expenses of the cooperative, to the patrons of the cooperative.
- To the extent any municipal electric system or electric cooperative chooses to provide or expand broadband service there will be a permissive increase in local government expenditures for infrastructure needs; however any permissive increase in expenditures will be met with an equal, corresponding permissive increase in local government revenue by way of subscriber fees which will be determined based on the costs for providing broadband service to customers.
- While it is unknown how many municipal electric systems or electric cooperatives will elect to provide or expand broadband service and the amount of infrastructure costs that will be associated with providing such service, a precise permissive increase in local

government expenditures and equal, corresponding permissive increase in local government revenue cannot be determined but is reasonably estimated to exceed \$400,000.

- Pursuant to Tenn. Code Ann. § 67-4-2007(a) and § 67-4-2105(a), nonprofit businesses are not responsible for paying F&E taxes, except for earnings and net worth which is garnered outside of the original scope of business for which nonprofit status was originally granted.
- It is assumed that any electric cooperative opting to provide broadband service, as authorized in this language, will now be responsible for paying F&E taxes; however due to multiple unknown variables such as how many electric cooperatives will opt to provide broadband service and the extent of their earnings and net worth earned from broadband service; a precise increase in local government expenditures and proportionate increase in state revenue cannot reasonably be determined.

## **IMPACT TO COMMERCE:**

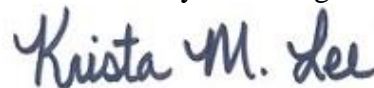
**Other Fiscal Impact – Due to multiple unknown factors, a precise impact to business revenue and jobs in Tennessee cannot reasonably be determined.**

Assumptions:

- Authorizing municipal electric plants to provide broadband coverage outside of their service area and electric cooperatives to begin providing broadband service will result in a change to business revenues for private companies currently providing broadband service; however it is unknown how many electric cooperatives will opt to start providing broadband service, how many municipal electric systems will opt to expand their service area, when such services will be available to customers, the extent of customers with a new option in broadband service providers, and the extent of any impact to rates charged by private businesses for broadband service as a direct result of the competition provided by electric cooperatives.
- Due to multiple unknown factors a precise impact to business revenue and jobs in Tennessee cannot reasonably be determined.

## **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Krista M. Lee, Executive Director

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